

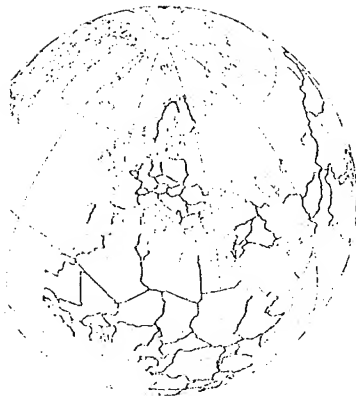
5 October 1983

Memorandum for:

Dear Steve,

Herewith is the Canadian Economic Fact Package you requested for the Secretary's upcoming meeting. Please give me a call to confirm its arrival.

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EUR A

Office of European Analysis
Directorate of Intelligence

EUR M 83-10241

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CANADA: ECONOMIC FACT PACKAGE

Economic Prospects

Canada is moving toward a strong and sustained economic recovery after 18 months of negative growth. Real GNP rose at a seasonally adjusted annual rate of 7.2 percent in the second quarter, as manufacturers began to build depleted inventories. While we do not expect that this rate will continue, growth probably will reach an average of 3.0 percent for 1983, giving Canada one of the largest rises in GNP of any of the OECD countries. As usual for the early stages of a recovery, productivity, we expect, will surge and unemployment will lag the pick up in growth, remaining in the double digits through 1984.

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While inventories continue to rise, burgeoning consumer demand in both the United States and Canada is currently providing the main impetus for the recovery. There has been much slower improvement on the investment side; a 2-percent increase in spending for plant and equipment was registered in the second quarter, following five consecutive quarterly declines. Although profits are rising slowly, they are being used to pay off debt and improve balance sheets. In addition, substantial unused capacity is hampering a strong turnaround in investment.

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The forestry and motor vehicles and parts industries have shown the most gains, fueled by pent up demand in the United

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States and Canada, and lower interest rates. The manufacturing sector is recovering more strongly this year than the primary industries -- forestry aside -- but there is likely to be a reversal in 1984. We expect that continued poor investment activity will slow improvements in the machinery and electrical products industries and weak demand will hamper increased oil, gas, and coal sales.

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Canadian Economic Statistics

| | 1979 | 1980 | 1981 | 1982 | 1983 |
|---------------------------------|-------|-------|-------|-------|-------|
| GNP (Billion Can \$) | 261.6 | 291.9 | 331.3 | 348.8 | 381.9 |
| Real Growth (percent) | 2.9 | 0.5 | 3.1 | -4.8 | 3.0 |
| Consumer Price Index (1971=100) | 191.2 | 210.6 | 236.9 | 262.5 | 277.8 |
| Percent Increase | 9.0 | 10.1 | 12.5 | 10.8 | 5.8 |
| Unemployment (thousands) | 838 | 867 | 898 | 1,305 | 1,470 |
| Unemployment Rate (percent) | 7.5 | 7.5 | 7.6 | 11.0 | 12.1 |

Ottawa, in our view, will continue to persevere in its anti-inflation program. This summer, Finance Minister Lalonde reaffirmed his commitment to the government's "6 and 5" wage restraint program, which limited federal employees' wage increases to 6 percent in 1982 and 5 percent this year. So far, the pace of recovery has not put pressure on prices and the high level of unemployment has kept wage demands down. The rise in consumer prices will likely slow from an average of 10.8 percent in 1982 to 5.8 percent this year.

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A 14.5 percent drop in imports in 1982 and a slight increase in exports gave Canada a surplus on the current account for the

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first time in nine years. Canada should be able to keep a positive balance through 1983 because its recovery is lagging slightly behind that of the US. Canada is on its way to another record merchandise trade surplus -- according to an analysis of data from the first half of 1983 -- but a decline in transfer payments may hold the current account surplus at \$2.4 billion.

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The Bank of Canada is likely to maintain its policy of pegging Canadian interest rates to those in the United States to keep the exchange rate steady. The Canadian dollar probably will continue to trade in the US 81 to 83 cent range in 1983 and 1984.

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Canadian Current Account
(US \$ Billion)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983* |
|----------------|------|------|------|-------|-------|-------|
| Exports | | | | | | |
| Merchandise | 46.3 | 55.7 | 65.7 | 70.2 | 68.5 | 70.4 |
| Services | 8.8 | 9.8 | 12.1 | 12.7 | 13.7 | 13.2 |
| Transfers | 1.4 | 1.7 | 2.3 | 2.6 | 2.6 | 2.2 |
| Total | 56.5 | 67.2 | 80.1 | 85.5 | 84.8 | 85.8 |
| Imports | | | | | | |
| Merchandise | 43.1 | 52.3 | 58.4 | 64.1 | 53.7 | 55.2 |
| Services | 16.4 | 18.0 | 21.4 | 24.6 | 27.3 | 26.6 |
| Transfers | 1.3 | 1.1 | 1.2 | 1.3 | 1.4 | 1.6 |
| Total | 60.8 | 71.4 | 81.0 | 90.0 | 82.4 | 83.4 |
| Balance | | | | | | |
| Merchandise | 3.2 | 3.4 | 7.3 | 6.1 | 14.8 | 15.2 |
| Services | -7.6 | -8.2 | -9.3 | -11.9 | -13.6 | -13.4 |
| Transfers | 0.1 | .6 | 1.1 | 1.3 | 1.2 | 0.6 |
| Total | -4.3 | -4.2 | -0.9 | -4.5 | 2.4 | 2.4 |

*projected from first half data

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US Influence on the Canadian Economy

The strong economic ties between the United States and Canada rest not only on trade, but also on closely linked capital markets, the media, and institutions such as business firms and labor unions. [REDACTED]

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Trade

The United States and Canada remain each other's largest trading partners. The United States purchased 69 percent of Canada's merchandise exports -- worth \$47 billion -- in 1982. In return, Canada received 70 percent of its imports from the United States. Nearly 18 percent of US exports are sent to Canada while some 19 percent of US imports come from our northern neighbor.

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Canada should register a record \$11.6 billion merchandise trade surplus with the United States in 1983. An \$11.3 billion services deficit, however, will leave Canada with only a small surplus on the current account. Still, this will reverse the traditional balance favoring the United States. [REDACTED]

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Canadian Trade With The United States
(US \$ Billion)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983* |
|-----------------|------|------|------|------|-------|-------|
| Exports | | | | | | |
| Merchandise | 32.5 | 38.1 | 42.0 | 46.9 | 47.3 | 50.5 |
| Services | 4.4 | 4.7 | 5.2 | 5.9 | 6.0 | 4.9 |
| Transfers | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.3 |
| Total | 37.2 | 43.1 | 47.6 | 53.2 | 53.7 | 55.7 |
| Imports | | | | | | |
| Merchandise | 30.6 | 37.9 | 40.8 | 44.0 | 37.7 | 38.9 |
| Services | 10.6 | 11.5 | 13.4 | 15.3 | 16.4 | 16.2 |
| Transfers | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 |
| Total | 41.2 | 49.7 | 54.5 | 59.5 | 54.4 | 55.4 |
| Balance | | | | | | |
| Merchandise | 1.9 | .2 | 1.2 | 2.9 | 9.6 | 11.6 |
| Services | -6.2 | -6.8 | -8.2 | -9.4 | -10.4 | -11.3 |
| Transfers | 0.0 | 0.0 | 0.1 | 0.2 | 0.1 | 0.0 |
| Current Account | -4.3 | -6.6 | -6.9 | -6.3 | -0.7 | 0.3 |

*projected from first half data

Top Ten Canadian Imports from the United States
(US \$ Thousands)

| | |
|--|-------|
| 1. Motor Vehicle Part | 6,066 |
| 2. Passenger Autos | 2,329 |
| 3. Electronic Computers | 2,003 |
| 4. Aircraft; parts and engines | 1,128 |
| 5. Motor Vehicle Engines | 1,006 |
| 6. Crude Petroleum | 788 |
| 7. Coal | 755 |
| 8. Telecommunications & Related Equipment | 605 |
| 9. Trucks | 601 |
| 10. Chemical Products | 574 |

Top Ten Canadian Exports to the United States
(US \$ Thousands)

| | |
|--------------------------------|-------|
| 1. Passenger Autos | 5,689 |
| 2. Natural Gas | 3,851 |
| 3. Trucks | 3,094 |
| 4. Motor Vehicle Parts | 2,884 |
| 5. Newsprint Paper | 2,603 |
| 6. Crude Petroleum | 2,210 |
| 7. Petroleum and Coal Products | 1,880 |
| 8. Lumber, softwood | 1,532 |
| 9. Wood Pulp | 1,377 |
| 10. Precious Metals | 1,295 |

Banking

The Bank Act of 1980, which for the first time allowed foreign banks to incorporate in Canada, limits the aggregate Canadian assets of foreign banks to 8 percent of total Canadian banking assets and to 20 times their initial authorized capital -- an amount determined by the Inspector-General of Banks on an ad hoc basis. Nineteen US banks are incorporated in Canada, approximately one-third of the foreign bank subsidiaries in the

country. The 15 required to report their operations to the Inspector-General of Banks -- the remaining four are new and are still in a grace period -- have assets of \$7.3 billion, 47 percent of the total for foreign banks. Because domestic assets of Canadian-owned banks have not grown for more than a year, the growth of 16 foreign banks -- seven of them US -- are approaching their individual limits. A parliamentary committee will make recommendations this fall on a proposal that would allow an expansion of foreign banking operations; it appears to favor raising the ceiling for foreign-bank assets to 10 to 12 percent.

Industry and Finance

Statistics Canada estimates that the United States had placed \$43.7 billion in direct investment in Canada by the end of 1982. Canada, in turn has an estimated \$14.6 billion in the United States. Some 80 percent of all foreign direct investment in Canada is of US origin, and it controls about 20 percent of Canada's non-financial industry. Canada accounts for about 13.6 percent of all foreign direct investment in the US but controls less than 1-percent of the United States' non-financial industries.

Canadian Direct Investment in the US (US \$ Billion)

| | |
|------|-------|
| 1978 | 6.2 |
| 1979 | 7.0 |
| 1980 | 9.8 |
| 1981 | 12.2 |
| 1982 | 14.6* |

US Direct Investment in Canada (US \$ Billion)

| | |
|------|-----|
| 1978 | 37 |
| 1979 | 41 |
| 1980 | 45 |
| 1981 | 47 |
| 1982 | 44* |

*Forecast

Foreign Control of Canadian Industry*
 (end of 1980 - based on assets)
 (Percent Control)

| | Total Foreign | US Share |
|-----------------------------|------------------|-------------|
| Mining | 34 | 26 |
| Oil and Gas | 60 | 45 |
| Total Manufacturing | 43 | 32 |
| Rubber | 91 | 65 |
| Transportation Equipment | 70 | 64 |
| Chemical | 70 | 49 |
| Electric | 54 | 44 |
| Heavy Machinery | 52 | 43 |
| Textiles | 54 | 43 |
| Metal Fabricating | 35 | 28 |
| Pulp and Paper | 35 | 28 |

*Statistics Canada, CALURA data

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[REDACTED]

The Foreign Investment Review Act (FIRA), which oversees foreign investment activity in Canada, has recently been streamlined. Finance Minister Lalonde reaffirmed Ottawa's commitment to FIRA this summer despite a GATT panel finding that aspects of FIRA were trade-disruptive. Canada has asked the full GATT to delay considering the panel report until November, possibly to introduce changes to FIRA in the Throne Speech expected later this month. [REDACTED]

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Media

Nearly 80 percent of Canada's population lives within 100 miles of the US border and is thus exposed constantly to American radio, television, magazines, and newspapers. Operational agreements between US and Canadian telecommunications carriers govern transborder telephone, telex, and data traffic, and new technologies such as satellite and computer communications will probably be accommodated through similar arrangements. Canada has imposed content requirements on the print and broadcast media to preserve a minimum level of Canadian cultural and financial input. [REDACTED]

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Americans Working in Canada

Relatively few Americans cross the border on a daily basis to work in Canada. Only 12 percent of US travelers to Canada in 1981 cited business, conventions, or employment as their reason for going to Canada. The reason is that foreigners may undertake temporary assignments in Canada only after obtaining an employment visa or work permit; to obtain such a permit a Canadian employer must certify that no suitable Canadian

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[redacted]

candidate can be found to fill the job. Long-term or permanent transfers to Canada require admittance as a landed immigrant. In 1979 nearly 10,000 US residents emigrated to Canada, almost 9 percent of total Canadian immigration. Similar procedures apply to Canadian workers in the United States. [redacted]

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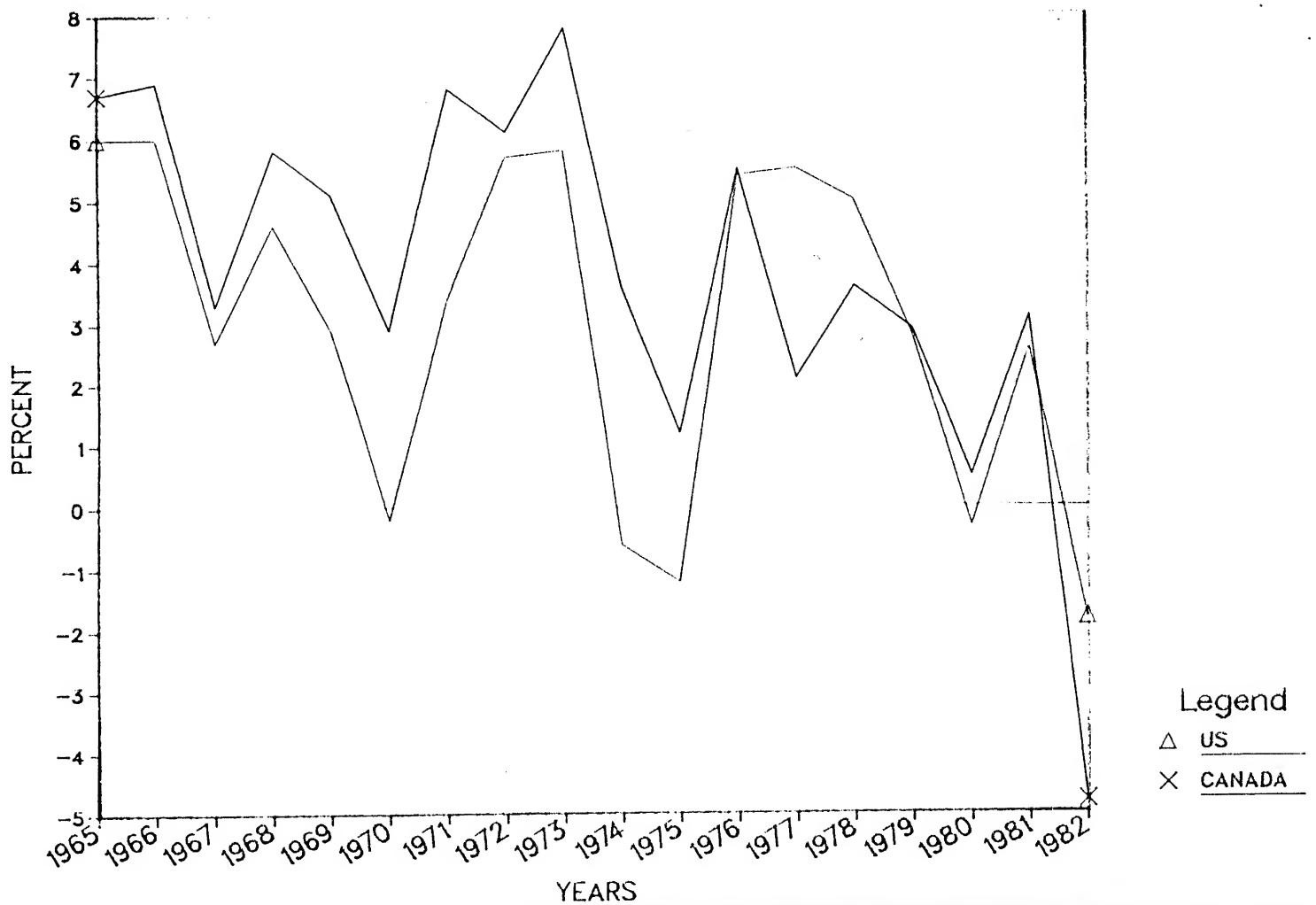
Travel

The majority of Canadian foreign travel is to the United States -- 2 million Canadians travel each year just to Florida. Americans also travel extensively in Canada and contribute the overwhelming bulk of tourist income. In 1981, Canada registered 42 million foreign visitors, of whom 40 million were US citizens. Conversely, 33.5 million Canadian visitors were registered in the United States. Last year, Canada's deficit on travel with the United States amounted to \$600 million. [redacted]

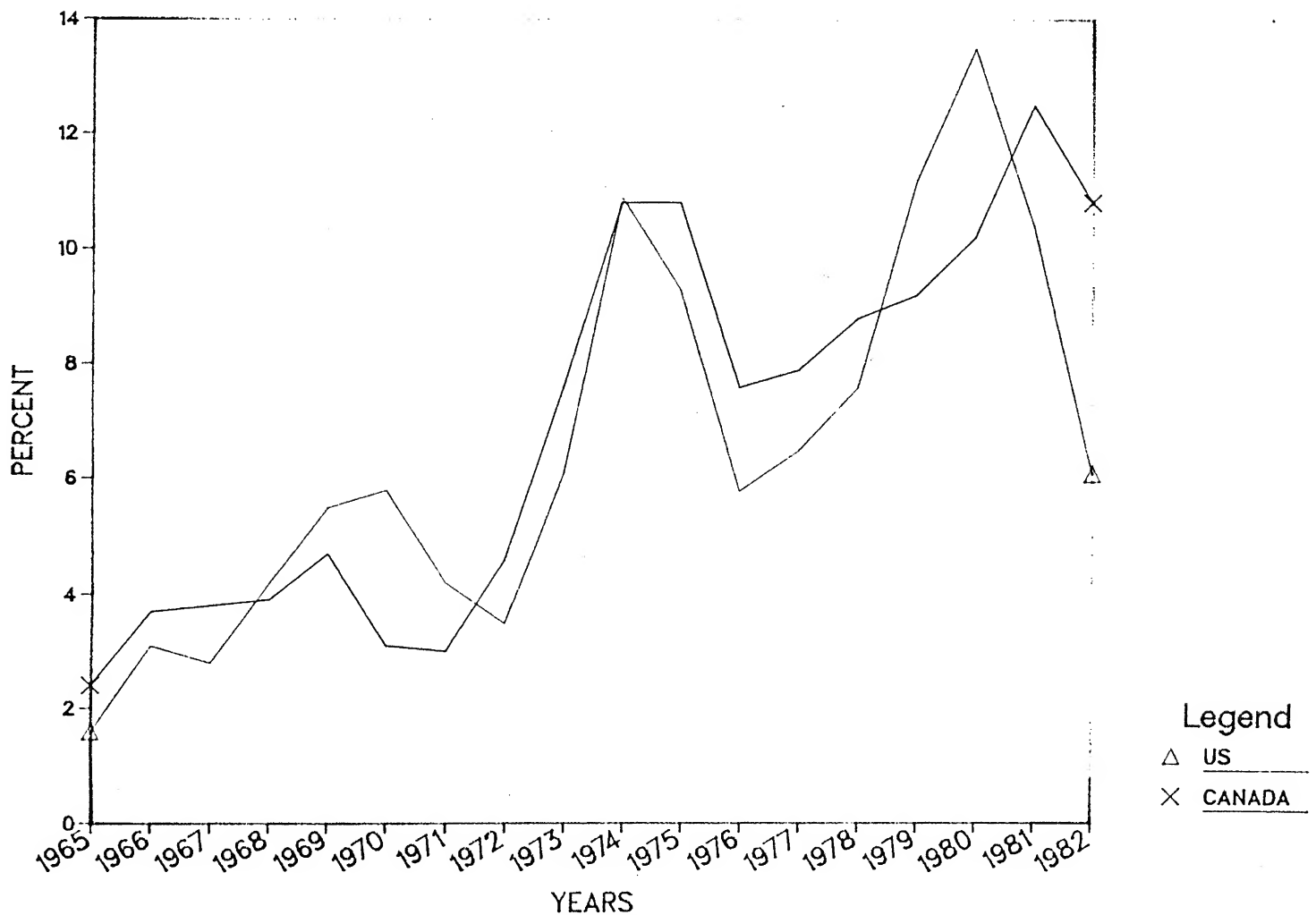
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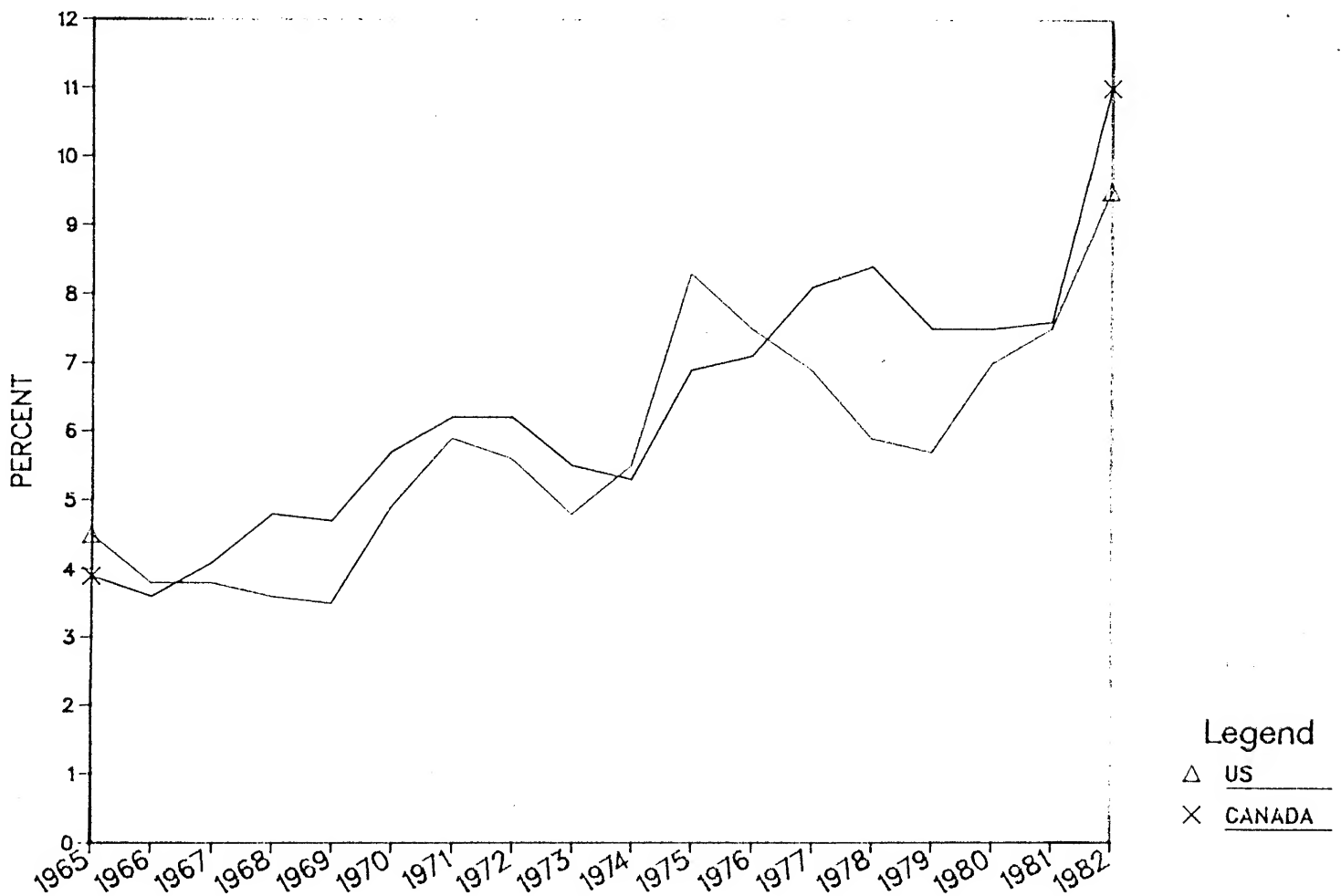
REAL GNP GROWTH UNITED STATES AND CANADA



CHANGE IN THE CONSUMER PRICE INDEX UNITED STATES AND CANADA



UNEMPLOYMENT RATES UNITED STATES AND CANADA



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